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House of Representatives

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Attached find the briefing memo required by Committee rules for the hearing on Tuesday July 18th entitled, *Global War on Terrorism (GWOT): Accuracy and Reliability of Cost Estimates*. The hearing will convene at 2:00 p.m., room 2154 Rayburn House Office Building.

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MEMORANDUM

To: Members of the Subcommittee on National Security, Emerging Threats, and International Relations

From: Vincent Chase, Chief Investigator

Date: July 13, 2006

Subject: Briefing memorandum for the hearing entitled, *Global War on Terrorism (GWOT): Accuracy and Reliability of Cost Estimates* scheduled for Tuesday, July 18th at 2:00 p.m., room 2154 Rayburn House Office Building.

PURPOSE OF HEARING

The purpose of the hearing is to examine the accuracy and reliability of cost projections for the Global War on Terrorism (GWOT).

HEARING ISSUE

How effective are the Departments of Defense and State processes for producing reliable, accurate, and timely cost estimates for the Global War on Terrorism?

BACKGROUND

The Global War on Terrorism (GWOT) touches on all parts of the U.S. government budget covering homeland defense and military and diplomatic operations abroad.

To combat terrorism the United States has initiated three military operations:

- *Operation Enduring Freedom* (OEF) covering Afghanistan and other Global War on Terror (GWOT) operations ranging from the Philippines to Djibouti, that began immediately after the 9/11 attacks.
- *Operation Noble Eagle* (ONE) providing enhanced security for U.S. military bases and other homeland security initiatives.
- *Operation Iraqi Freedom* (OIF) that began in the fall of 2002 with the build up of troops for the March 2003 invasion of Iraq and continues with counter-insurgency and stability operations.

Determining the total amount of funding for the GWOT is challenging because of the various ways in which funds are appropriated. Congress has enacted a series of supplemental appropriation acts, beginning in September 2001, to fund the GWOT. These supplemental appropriation acts have included funding authority for operations in Afghanistan and Iraq, homeland security, and other global counterterrorism military and intelligence operations. However, some funding has also come through the normal baseline budgets appropriated to the departments and, in the case of DOD, through a "bridge" appropriation in fiscal years 2005 and 2006 to fund operations before a supplemental was passed.

The costs of GWOT contingency operations are referred to as "incremental costs," which are costs that would not have been incurred were it not for the operation. Specifically, the costs are above and beyond baseline training, operations, and personnel costs. Incremental costs include the pay of mobilized reservists as well as the special pays and allowances of deployed personnel, such as imminent danger pay and foreign duty pay for those personnel serving in Operation Iraqi Freedom and Operation Enduring Freedom. Incremental costs also include, among others, the cost of

transporting personnel and material to the theater of operation and supporting them upon arrival, and the operating cost of equipment such as vehicles and aircraft. Costs that are incurred regardless of whether there is an operation, such as the base pay of active duty military personnel, are not considered incremental. (**Web Resource 1, pg. 9**)

According to the Congressional Research Service (CRS), since September 2001, Congress has appropriated through supplemental appropriations and bridge funding a total of approximately \$436.8 billion for the GWOT. (**Attachment 1, pg. 3**)

The Department of Defense (DOD) provides Congress with estimates of the current or average monthly costs for the GWOT for military operations, referred to as the “burn rate.” While the burn rate covers some of the costs of the GWOT, it excludes the cost of upgrading or replacing military equipment and of improving or building facilities overseas, and does not cover all funds appropriated. DOD tracks the obligations incurred to support GWOT and produces the monthly cost report, which is distributed throughout the department and used by senior DOD leadership in discussing the cost of the war. It is also used in formulating future budget requests to fund GWOT. The monthly report, initially titled the *Terrorist Response Cost Report*, and renamed the *Supplemental and Cost of War Execution Report* in January 2005, identifies the monthly and cumulative incremental GWOT obligations.

Beginning in 2004, Congress required the Defense Department to report the cumulative and most recent cost of OIF and OEF on April 1 and October 31 of each year. This reporting requirement was included in three separate statutes.¹ Two of these statutes also required that DOD send Congress estimates of costs for the next 12 months and for the period, FY2006-FY2011. Although DOD has a financial system that tracks funds for each operation once they are obligated, as pay or contractual costs, DOD has neither sent Congress the semiannual reports with cumulative and current obligations for OIF and OEF, nor estimates for the next year, nor for the next five years as required by statute.

Of the \$436.8 billion appropriated through FY2006, CRS estimates that OIF will receive about \$319 billion (73%), OEF \$88 billion (20%), and

¹ (Sec. 1120, P.L. 108-106, Section 9010, P.L. 108-287, and Sec. 1024, P.L. 109-13)

enhanced base security about \$26 billion (6%), with about \$4 billion that cannot be allocated based on available information (1%). About \$396.9 billion or 91% of these funds are for DOD, about \$35.2 billion or 8% are for foreign aid programs and embassy operations, about \$700 million or less than 1% is for medical care for U.S. veterans of Iraq and Afghanistan.

War-Related Funding: FY2001/FY2002-FY2006

(in billions of budget authority and percent)

Fiscal Year & Agency	FY01 & FY02	FY03	FY04 ^b	FY05 ^b	FY06 Total including FY2006 supp conf. (H.R. 4939) ^c	Cum.: FY01-FY06 ^c
Defense	30.8	70.3 to 77.4 ^a	72.6	102.5	117.6	393.9 to 401.0 ^{ac}
State AID	0.6	3.8	21.7	4.8	4.2	35.1
Veterans Affairs	0	0	0	0	0.7	0.7
Budget Authority	31.4	74.1 to 81.2^a	94.3	107.2	122.2	429.7 to 436.8^{ac}
BY OPERATION: IRAQ, OPERATION ENDURING FREEDOM (OEF) AND ENHANCED SECURITY^e						
IRAQ	2.5 ^d	51.0	77.3	87.3	100.4	318.5
OEF	18.1	17.0	15.1	18.1	19.9	88.2
ENHANCED SECURITY	12.0	6.5	3.7	2.1	1.9	26.2
UNABLE TO ALLOCATE	0	3.9 ^{ad}	0	0	0	3.9

Notes and Sources: NA = Not Applicable. Numbers may not add due to rounding. Year-by-year totals may not be consistent due to discrepancies and gaps in DOD data.

a. Range shows amounts with and without the \$7.1B in DOD's regular FY2003 appropriations (P.L. 107-48) that may or may not have been spent for war and GWOT. CRS calculations based on public laws and transferred funds listed in **Table A1** in the appendix.

b. Of the \$24.9 billion provided in Title IX of the FY2005 DOD appropriations bill, CRS included \$1.86B in FY2004 because it was obligated that year and the remaining \$23 billion in FY2005. Because Congress made the funds available in FY2004, they are formally scored by CBO and OMB as FY2004 monies.

c. Includes funds through the FY2006 supplemental conference bill, H.R. 4939.

d. Amount shown in DOD table but source of funds unclear; funds were used for initial buildup of troops before Iraq invasion.

e. For distribution of funds by agency, see **Table 3**.

The monthly burn rate of spending in Iraq and Afghanistan is expected to average \$9.7 billion in FY06.

According to CRS, changes in war costs reflect a variety of factors that result from the situation on the ground faced by U.S. troops, policy plans and decisions, and external factors, such as the price of oil. War cost drivers are:

- the number of troops deployed or anticipated to deploy;
- changes in the pace of operations or optempo;
- changes in the amount of equipment and number of personnel to be transported to the theater of operations;
- the type and level of various other support for troops;
- how quickly equipment breaks down and the extent and pace of replacing and upgrading equipment; and
- military basing plans that underlie construction requests.

Some of the reasons for higher operating costs are known. For example, higher operating costs reflect the purchase of more body armor for troops, the jump in oil prices, the coming due of maintenance bills as equipment wears, and the inclusion of funds to train and equip Afghan and Iraq forces that was previously carried in foreign operations accounts. **(Attachment 1, pg. 5)**

Foreign Operations Funding

Although DOD has received the bulk of funding for the GWOT since the 9/11 attacks, Iraq and Afghanistan have also received some \$32.1 billion for foreign aid and reconstruction programs as well as embassy construction and operations. Of that total, \$24.7 billion is for Iraq and \$7.4 billion for Afghanistan. In the case of Iraq, about 60% of the \$24.7 billion total is for reconstruction, about 13% for embassy construction and operations, and about 20% to train Iraq security forces. Of Afghanistan's \$7.4 billion total for foreign and embassy operations funding to date, about 40% is for reconstruction, 37% for other foreign aid programs, 17% to train Afghan security forces (now funded in DOD), and 5% for embassy operations. **(Attachment 1, pg. 11-12)**

Training Security Forces

Funding to train security forces was shifted from the State Department to the Defense Department in FY2005, funds appropriated to both agencies need to be counted to get a complete picture. Taking all funds into account, funding dedicated to train security forces is \$10.7 billion to date for Iraq, with another \$3.7 billion requested in the FY2006 supplemental bringing the total to \$14.4 billion.

According to GAO, funding to train and equip Afghanistan's military and police forces totals \$4.1 billion thus far including \$1.3 billion funded in DOD in FY2005. **(Attachment 2; Web Resource 4)** The FY2006 supplemental includes an additional \$2.2 billion for Afghan training, which would bring the total to \$6.3 billion. Congress also permitted DOD to use a total of up to \$500 million to train either Iraq or Afghan security forces in the FY2006 bridge fund.²

DISCUSSION OF HEARING ISSUE

How effective are the Departments of Defense and State processes for producing reliable, accurate, and timely cost estimates for the Global War on Terrorism?

Department of Defense (DOD)

Each year the Department of Defense spends millions of dollars on financial management initiatives to improve the accuracy of the agency's financial and accounting functions. Long-standing DOD financial management and business modernization problems result in a lack of information needed to make sound decisions, leave the Department of Defense vulnerable to waste, and hinder the efficiency of operations and the ability to provide Congress with accurate information.

The Government Accountability Office (GAO) issued a report in September 2005 entitled, *Global War on Terrorism: DOD Needs to Improve the Reliability of Cost Data and Provide Additional Guidance to Control Costs*. **(Web Resource 1)** GAO found numerous problems in DOD's

² Sec.9006, Title IX, P.L. 109-148

processes for recording and reporting costs for the Global War on Terrorism, raising significant concerns about the overall reliability of DOD's reported cost data. According to GAO, neither DOD nor Congress (1) can reliably know how much the war is costing or know details on how appropriated funds are being spent or (2) have historical data useful in considering future funding needs.

The GAO examination of DOD's reported costs in support of GWOT found a number of problems affecting the accuracy of these costs. These problems included long-standing deficiencies in DOD's financial management systems and business processes, reported military personnel obligations that do not match payroll records, incorrectly categorizing operation and maintenance obligations, the use of estimates instead of actual information, and a lack of supporting documentation.

Financial Management Systems and Business Processes

According to GAO, DOD's accounting systems cannot directly capture GWOT costs, the department's overall GWOT cost reporting is based on the military services' reports of obligations. DOD has long-standing deficiencies in its existing financial management systems and business processes. More than four years ago, David Walker, the Comptroller General and head of the Government Accountability Office sounded a similar alarm. He told this Subcommittee that DOD suffered "pervasive weaknesses in its financial management systems, operations, and controls, including an inability to compile financial statements that comply with generally accepted government accounting principles."³

As recently as September 2004, DOD acknowledged that agency wide financial statements were not completely reliable as a result of inadequately designed systems. The department reported that systemic deficiencies in financial management systems and business processes resulted in the inability to collect and report financial and performance information that is accurate, reliable, and timely. GAO concluded that DOD's financial management deficiencies adversely affect the department's ability to control costs, ensure basic accountability, anticipate future costs and claims on the budget, measure

³ House Government Reform Committee, Subcommittee on National Security, Veteran Affairs and International Relations, hearing, *Transforming the Department of Defense Financial Management: A Strategy for Change*, June 4, 2002, Serial No. 107-198.

performance, maintain funds control, prevent fraud, and address pressing management issues. **(Web Resource 1, pg. 13)**

Military Personnel Obligations

According to GAO, the Army does not have a reasonable and reliable process to identify and report GWOT military personnel obligations. Army officials were unable to readily explain the process for identifying and reporting GWOT military personnel obligations. Specifically, the Army Budget Office lacked formal procedures to guide the monthly reporting of GWOT military personnel obligations to DOD and a process to ensure management's review of the reported amounts. The GAO analysis showed that obligations associated with military personnel in the monthly GWOT cost report were not consistent with related DOD payroll information, and the use of planned obligations instead of actual payroll information might have resulted in reported Army military personnel GWOT obligations being materially overstated. **(Web Resource 1, pg. 14)**

Operation and Maintenance Obligations

Obligations are the foundation of all GWOT cost reporting. Operation and maintenance obligations in support of GWOT represent tens of thousands, if not hundreds of thousands, of individual transactions ranging in value from one penny to millions of dollars. When obligations are incurred, the services enter them into their accounting systems using accounting codes or cost category. If obligations are not identified in the correct cost category in the services' accounting system, they can affect the overall reliability of DOD's GWOT cost reporting.

In addition, according to the Congressional Budget Office (CBO) some obligations are recorded months after the actual activity because of the time needed to establish proper billing and reimbursement. **(Attachment 3, pg. 8)**

At two Army divisions, GAO observed obligations being assigned to the wrong cost categories. At one of the divisions tested, which deployed to Iraq as part of Operation Iraqi Freedom, GAO found errors in assigning costs to the correct cost code, which resulted in overstated costs in some categories and understated costs in others. GAO reviewed 31 transactions valued at \$15 million and found coding errors in 11, or 35 percent of the transactions,

valued at \$770,134, or approximately 5 percent of the amount reviewed. One example of an error GAO found involved \$383,147 in obligations for communications services, which was entered into the division's financial management systems under cost code that corresponded with DOD's GWOT cost report's category of Other Services and Miscellaneous Contracts. (**Web Resource 1, pg. 17**)

In related reporting, GAO raised concerns about reported equipment reconstitution costs. Reconstitution is one of the cost categories in DOD's GWOT cost report. GAO reported that DOD has not accurately tracked and reported its reconstitution costs because the services are unable to segregate equipment reconstitution from other maintenance requirements, as required. In the case of the Air Force, GAO reported that it does not break out equipment reconstitution obligations from other GWOT obligations in the cost report and was reporting no reconstitution costs. (**Web Resource 1, pg. 18**)

Lack of Supporting Documentation

According to GAO, documentation related to goods and services purchased in support of the Global War on Terrorism is not always available. Without documentation, one cannot attest to the reliability and applicability of reported costs to GWOT. In addition, several military audit agencies also had mixed success with linking reported GWOT costs to supporting documentation. In many cases, documentation was not available or the available documentation was not sufficient enough to determine the applicability of costs. (**Web Resource 1, pg. 21**)

According to GAO, because of these problems, neither DOD nor Congress can reliably know how much the war is costing or details on how appropriated funds are being spent. This will make it difficult to determine future commitments.

Finally, according to CBO, an estimate of costs is uncertain for a number of reasons. DOD has provided little detail on actual costs to date. Without more detailed information, it is difficult, if not impossible, to use the reported obligations to estimate future costs. (**Attachment 3, pg. 8**)

Department of State (DOS)

The Department of State requested for Iraq \$3.252 billion in the FY 2006 and \$771 million in FY 2007 for Iraq foreign assistance for a total of \$4.023 billion. **(Attachment 4)** However, according to GAO, we may never know the actual totals because DOS does not distinguish whether certain expenses are solely attributable to GWOT.

Funding Contingency Operations

Since the terrorist attacks of September 11, 2001, Congress has appropriated, according to CRS calculations, \$331 billion to the Department of Defense (DOD) for military operations in Afghanistan, Iraq, and elsewhere.⁴

Of the \$331 billion provided to date, \$301 billion, or 91%, has been provided either in supplemental appropriations bills or as additional “emergency” funding in separate titles of annual defense appropriations acts. In all, Congress has approved 9 bills providing emergency funding for military operations since 9/11. The remaining \$30 billion has been provided either as part of regular annual appropriations for the Department of Defense or by transfer from regular DOD budget accounts. **(Attachment 5)**

A recurring issue in Congress has been whether funding for ongoing operations, such as those in Iraq, Afghanistan, and elsewhere, should continue to be provided in supplemental appropriations bills and in additional “emergency” accounts, or should instead be considered as part of regular annual defense budget requests. This would require DOD and DOS provide the usual extensive budget justification material prepared in support of regular defense requests, and it would make funding subject to the usual oversight that Congress carries out in the normal defense authorization and appropriations process.

According to CRS, supplemental appropriations have been the most frequent means of financing the initial stages of military operations. In general, however, past Administrations have requested, and Congress has

⁴ See CRS Report RL33110, *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11*, by Amy Belasco, Table 3.

provided, funding for ongoing military operations in regular appropriations bills as soon as even a limited and partial projection of costs could be made. In Vietnam, the Johnson Administration requested supplemental appropriations of \$700 million for FY1965 and then submitted a budget amendment for \$1.7 billion for the regular FY1966 defense appropriations bill. Subsequently, substantial funding was requested and provided in regular appropriations bills for FY1967 and FY1968, and additional funding was also provided in supplemental appropriations. **(Attachment 5)**

The amounts the Johnson Administration requested in regular appropriations bills in those years were sufficient to cover projected costs of operations for only part of the fiscal year on the premise that additional costs were uncertain. The FY1967 request was based on the official premise that the war might be successfully concluded by the end of the fiscal year. When costs grew, supplemental appropriations were requested.

In the early 1990s, funding for ongoing operations in Southwest Asia and in Bosnia was provided in supplemental appropriations rather than in regular appropriations bills. In the FY1996 defense appropriation act, however, Congress directed the Administration to include subsequent funding for ongoing military contingency operations in its requests for regular defense appropriations funding. The Clinton Administration complied with this directive. Although operations in Kosovo were initially funded with supplemental appropriations, funds for ongoing missions, including Kosovo after the initial stages, were requested in regular DOD budget submissions.

WITNESS TESTIMONY

Mr. David M. Walker, Comptroller General of the United States, Government Accountability Office will testify about the sources of funding and reported GWOT spending and the ability of DOD and DOS to determine future financial GWOT commitments.

Mr. Bradford R. Higgins, Assistant Secretary, Chief Financial Officer, Department of State will testify about how the Department of State (DOS) distinguishes costs for the GWOT and other types of DOS spending as well as the DOS strategy for producing reliable, accurate, and timely costs for the GWOT.

Mr. John P. Roth, Deputy Comptroller (Program/Budget), Office of the Undersecretary of Defense (Comptroller), Department of Defense will testify about how the Department of Defense (DOD) distinguishes costs for the GWOT and other types of DOD spending as well as the DOD strategy for producing reliable, accurate, and timely costs for the GWOT.

Mr. James R. Kunder, Assistant Administrator for Asia and the Near East, U. S. Agency International Development (USAID) will testify how USAID distinguishes costs for the GWOT and other types of DOS spending as well as the DOS strategy for producing reliable, accurate, and timely costs for the GWOT.

Mr. Donald B. Marron, Acting Director, Congressional Budget Office will testify about the complexity of estimating GWOT costs using supplemental and bridge appropriations and how supplemental and bridge appropriations affect the accuracy and reliability of cost information for the GWOT?

Ms. Amy F. Belasco, Defense Budget Specialist, Foreign Affairs, Defense and Trade Division, Congressional Research Service, will testify about complexity of determining GWOT costs using supplemental and bridge appropriations.

ATTACHMENTS

1. CRS Report for Congress, CRS Report RL33110, *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations since 9/11*, updated April 24, 2006., Amy Belasco, Specialist in National Defense, CRS Foreign Affairs, Defense and Trade Division.
2. Government Accountability Report, *Afghan Security: Efforts to Establish Army and Police Have Made Progress, but Future Plans Need to be Better Defined*, GAO-05-575, June 2005.
3. Congressional Budget Office, Letter to Senator Kent Conrad, *Estimated Costs of Continuing Operations in Iraq and Other Operations of the Global War on Terrorism*, June 25, 2004.
4. *Advancing the President's National Strategy for Victory in Iraq, Funding Iraq's Transition to Self-Reliance in 2006 and 2007 and Support for the Counterinsurgency Campaign*, Department of State, February 2006.
5. CRS Report for Congress, CRS Report RS22455, *Military Operations: Precedents for Funding Contingency Operations in Regular or in Supplemental Appropriations Bills*, June 13, 2006, Steven Daggett, Specialist in National Defense, CRS Foreign Affairs, Defense and Trade Division.

WEB RESOURCES

1. Government Accountability Report, *Global War on Terrorism: DOD Needs to Improve the Reliability of Cost Data and Provide Additional Guidance to Control Costs*, GAO-05-882, September 2005.
<http://www.gao.gov/new.items/d05882.pdf>
2. CRS Report for Congress, CRS Report RL33110
The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations since 9/11, updated April 24, 2006.
<http://www.congress.gov/erp/rl/pdf/RL33110.pdf>
3. Government Accountability Report, *Afghan Security: Efforts to Establish Army and Police Have Made Progress, but Future Plans Need to be Better Defined*, GAO-05-575, June 2005.
<http://www.gao.gov/new.items/d05575.pdf>

WITNESS LIST

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